

CITY OF HUNTINGTON BEACH
INVESTMENT ADVISORY BOARD (IAB)
ANNUAL REPORT TO THE CITY COUNCIL
FOR THE PERIOD OCTOBER 1, 2006 TO SEPTEMBER 30, 2007

October 1, 2007

Establishment of Board

The IAB was created to act in an advisory capacity to the City Council and City Treasurer in matters pertaining to all of the City's investments by the City Council in May 1995 by Resolution #3284. The seven Board members are appointed by a member of the City Council and are as follows:

<u>Name</u>	<u>Council Member</u>
Christopher Palmer	Cathy Green
Joe Foye	Debbie Cook
Bob Glass	Don Hansen
Angela Rainsberger	Joe Carchio
Brian Olson	Keith Bohr
Diann Shelton	Gil Goerper
James Steinkirchner (Chair)	Jill Hardy

Board Activities

The meetings of the Board for the fiscal year ended September 30, 2007 were open to the public as required by Government Code 54950 and held on the following dates in City Hall:

October 25, 2006
January 24, 2007
April 25, 2007
July 18, 2007

In addition, a joint study session with the City Council is scheduled to be held on November 19, 2007.

The two major activities of the Board consisted of reviewing each monthly investment report and reviewing the City of Huntington Beach Investment Policy annually, prior to their presentation at a City Council meeting.

*Study Session
1*

As required under HB Municipal Code 2.110.040(b), the Board has reviewed matters pertaining to the City's investments in the following areas:

- Reviewed the annual Investment Policy
- Discussed the Management Letter from the City's independent financial auditor in conjunction with the annual financial audit and was advised that there were no comments relating to investments for the IAB to review.
- Discussed Cash Management and ensured that there was sufficient liquidity to meet the next six month's estimated expenditures for all funds including the General Fund.
- Reviewed Risk-Return Analysis as it relates to Safety, Liquidity, and Yield
- Reviewed Long Term Investments and how cash flow forecasting enables the City to match investments to budgeted expenditures
- Reviewed New Investment Sources, as appropriate
- Reviewed Proposed State Legislation impacting the City's Investments
- Reviewed any Anticipated Exposure to Loss by looking at liquidity, credit & market value of investments
- Reviewed Quarterly and Monthly Reports prior to them being presented to the City Council
- Reviewed Quarterly Compliance with Investment Policy and no exceptions were identified

Based on the information reviewed by the Board for the period October 1, 2006 to September 30, 2007 it appears that the City Treasurer has maintained compliance with all requirements in the City's Investment Policy.

Respectfully submitted,



James Steinkirchner
Chair – Investment Advisory Board

cc: Shari L. Freidenrich, City Treasurer

Joint Study Session

IAB/City Council



Investment Advisory Board Members:

James Steinkirchner, Chair;

Joe Foye, Bob Glass,

Brian Olson, Angela Rainsberger, Diann Shelton

SS 1.3

November 19, 2007

Study Session Topics

- Overview of year - IAB report
- Investment opportunities in an easing interest rate environment

Overview of IAB Annual Report

- Investment policy compliance
- Broker/dealer review
- Legislation impacting investments
- Cash management
- Monthly/quarterly investment report

Investment Outlook with an Expected Fed Policy Ease

- Market Overview/Economic Forecast
 - Interest Rate Yield Curve
 - Investment Strategies for the City

Market Overview and Economic Forecast

- Fed Funds (FF) rate lowered to 4.50% in 10/07 from 5.25%
- Bernanke- New Fed Chairman
- Current lowering mode and Chairman's rate policy is data dependent
- Expect FF rate of 4.25% in first half 2008

Economy

Higher interest rates & gas prices slowing economy, housing prices, & consumer spending

- Economic growth slow, suppressing inflation fears
- Jobless rate @ 4.70%
- Stock market mixed-techs are back, financials and homebuilders are down
- Oil prices up, housing prices down

<HELP> for explanation.

MSG:G.SHENTOW

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HISTORICAL YIELD CURVE

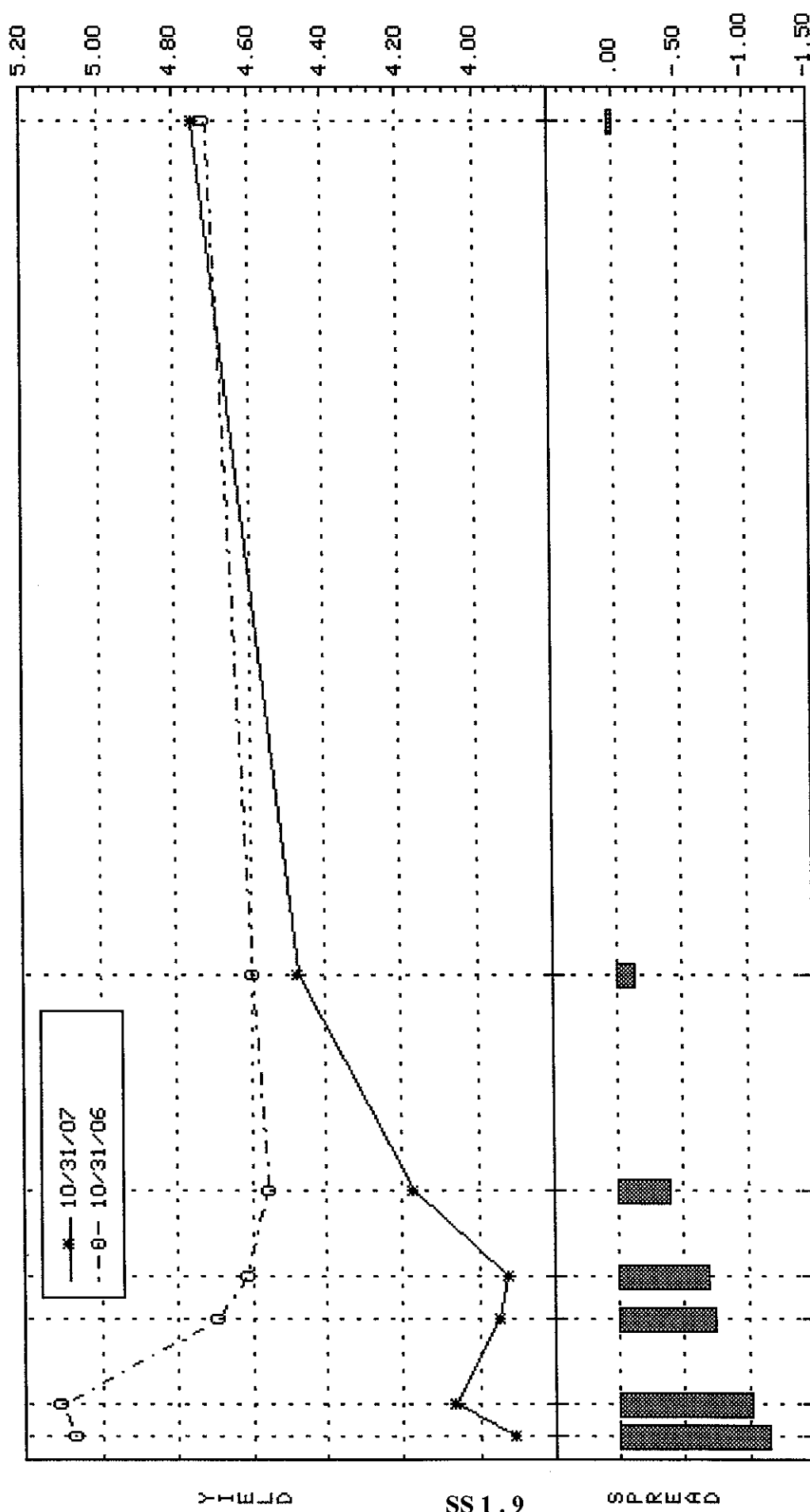
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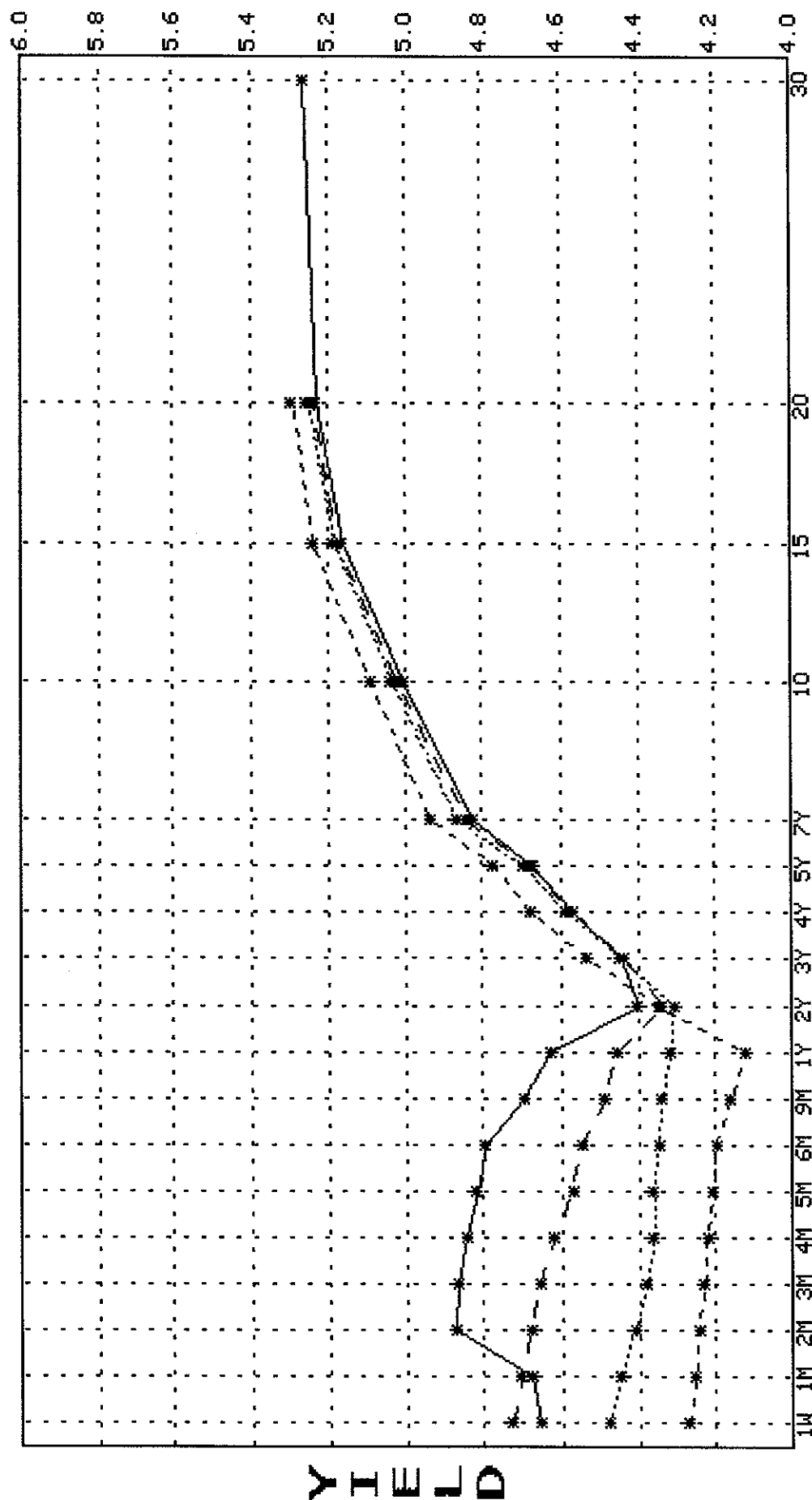


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FORWARD CURVE ANALYSIS US Dollar



Graph Curves: ☒ COUPON

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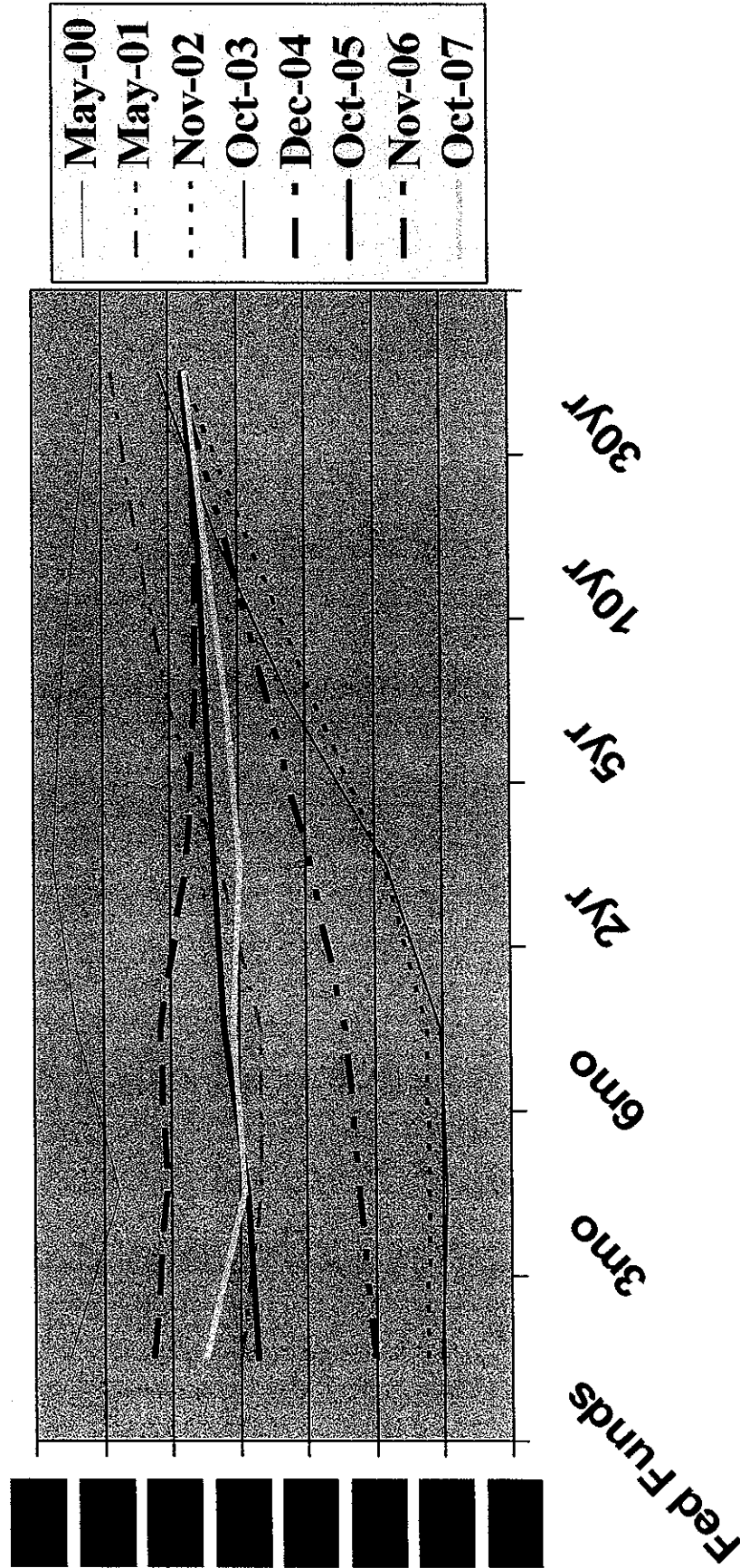
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Interest Rate Yield Curve



Investment Strategies for the City

- Short Term
 - Use LAF, commercial paper & agency discount notes to invest cash needed within the year
- Long Term
 - Invest in agency callables with 1 X calls and call protection of 6mo. to 3yrs to lock in rates.
 - Invest in agency bullets and US Treasuries with 2-5 year maturities to protect against the eventual decline in rates.

Conclusion

- Overview of year - IAB report
- Investment opportunities in an Easing interest rate environment

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